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Norman S. Swift

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WHAT SHALL BE DONE WITH TRUSTS?

Several courses are open to society with reference to "Trusts." First, the effort may be made to crush and prevent them; secondly, they may be let alone and permitted to work out their possibilities without interference of law; thirdly, government might undertake control of the industries monopolized by them, with the ultimate end of becoming owner of the same; or, fourthly, government might assume the office of regulator and place restrictions.

A brief statement of the objections to the "trust" will help us to determine which of these courses is best. Competition is destroyed; the trusts do not endeavor to decrease prices by lessening the cost of production, and if they lessen the cost of production it is rather incidental than a part of their method; they affect prices by arbitrary control of the product, underselling rivals until the field is their own, and then limiting the output to save expenses and raise prices; they deprive workmen of employment by curtailing production.

In opposition to any reform of these abuses we have the enormous power of the trusts due to their concentrated wealth, the ease with which secret combinations can be effected if open ones are prohibited, the prevalent opinion that prices are lowered by combines. Combined capital can buy legislation and influence judicial decisions, and it directly employs, or furnishes the best openings for, the brains of the country. A natural tendency is at work favoring combination. In every industry where the addition of new capital yields more than proportionate returns the number of independent producers will diminish until at length, in one form or another, the industry will pass under one head. The farther

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this process of absorption goes the more difficult will the suppression of trusts become, because the fewer the persons there are to unite the more readily can they evade the law by tacit understandings. The fact that economy is possible through production on a large scale, favors the trust also, because it affords means for a healthy reduction of prices. The public can readily comprehend this advantage, and it disarms their opposition to abuses, some of which do not at once reach the light or are hard to prove. The Standard Oil Trust has many friends because it has decreased the price of oil to the consumer. This seems to justify its sins. But it does not follow that the price was reduced as much as it should have been, nor that other consequences of its methods were not injurious.

The suppression of the trust must therefore be decided against as both impossible and undesirable. It may be retarded, but the development is a natural one and will happen, whether through combination, or consolidation, or extermination. Legislation may obstruct and introduce needless evils and severity, but in the end the trust will remain, and the problem will be as it is to-day. "What shall we do with it?" Besides the loss of time, many thriving firms will have suffered extinction.

A second proposition was to leave the trusts wholly alone. Probably only the trusts themselves would approve of this course. They would be left irresponsible and, having disposed of competition, free to set their own prices and to levy general tribute. Private enterprise might at length gather courage to compete, but the trusts could discomfit new competitors by returning to their earlier methods, and when the field was again clear they could remunerate themselves for temporary losses and inconvenience by still higher prices. Some plead for unhampered trusts to make things insupportable, and to induce a crisis for the destruction of the entire industrial system. Probably unchecked trusts would cause a cataclysm, but the Anglo-Saxon method is to seek remedies for each evil as it becomes oppressive, and not to attempt to legislate or revolutionize perfection into existence at one stroke. It may be true, as the cataclysmists say, that the situation is changed because the adverse forces are generating new energy with the suddenness and swiftness of a chemical combination, that centralized money has legislatures and congresses, judges, the press, the pulpit, college chairs, and lawyers in its service, that we are realizing its power and perniciousness too late, and can now only await the crisis and start afresh. Nevertheless, there is still con-

siderable light. The trust is to some extent its own antidote, for its unabashed disregard of all accepted principles more stingingly than sermons, or demonstrations of anarchists, convinces of danger and arouses.

As to the third suggestion, that government should take steps to make itself owner of monopoly industries, it is perhaps enough to say that in the present state of public opinion such a move cannot be contemplated. That such may be the consummation of the future does not help us now. Even collectivists, or most of them, would oppose immediate state assumption of ordinary industries, recognizing that society must pass through some intermediate stages of training and experience.

State regulation is the course that remains. Some have argued that efficient regulation is out of the question for the same reasons that render prevention impossible, and this is perfectly true of such intervention as does not comprehend and adapt itself to the principle of growth in the trust. But it does not apply to natural restrictions; and while public sentiment may waver as to what shall be done, it is not uncertain about the need of doing something. It knows that the right thing if found would be comparatively easy, but the wrong thing very hard. This principle has been enunciated by Professor Arthur T. Hadley, who says: "A really sound principle, uttered by a public authority which commands respect, becomes law with surprising ease. A false principle, however often repeated, is evaded and nullified." [1]

In searching for a sound principle in this crisis of Trusts, are there any analogies by which we can be guided? Precisely the instruction that we need is furnished by the history of railroads. For many years it was supposed that railroads were amenable to the ordinary laws of trade, and no end of trouble was encountered in trying to regulate them upon this theory. All this legislative activity failed of its object, at a cost, however, to the English companies of £80,000,000. The truth was at last discovered that the laws of competition do not apply to railroads, for, in the often quoted words of George Stephenson, where combination is possible, competition is impossible. The situation was briefly summarized by the Parliamentary committee of 1872, which said that "competition between railroads exists only to a limited extent, and cannot be maintained by legislation." [2] The result of this awaken-

[1] "The Workings of the Interstate Commerce Law," *Quarterly Journal of Economics*, Jan., 1888.

[2] *Railroads: their Origin and Problems.* By Charles Francis Adams, Jr., p. 88.

ing is well stated by Mr. Adams: "After more than forty years of blundering it was then at last realized in 1872 that the railroad system was a thing *sui generis*, — a vast and intricate formative influence, as well as a material power, the growth of which was to be curiously watched in the expectation that in due time it would develop some phase which again would call forth a corresponding development in the machinery of government, through which its political and economical relations with the community would be finally established on some rational and permanent basis."[1]

Society would like to believe that the railroad is the only exception to the law of competition, and this has caused it to look upon the trust as a monstrosity. But competition is merely an early stage of industrial development, and at length the point is reached where combination naturally takes its place. This occurs first with those industries where the application of capital brings increasing returns, but finally it must extend to all branches of trade. Where there is any business life, competition soon becomes destructive, and is nullified by agreement or combination; where the industrial life is slow, the development beyond the competitive stage may not happen, but here also the principle of competition is largely nullified by its subordination to other forces, especially to custom. The law of competition supposes trade to be self-adjusting, so that prices can never remain abnormally high because of new competitors, or be long below the cost of production, because people will not produce at a loss. Professor Hadley has pointed out the fallacy of this hypothesis as applied both to railroads and factories.[2] There are times when it is better to pro-

[1] Adams: *Railroads: their Origin and Problems*, pp. 82, 83.

[2] "Let us take an instance from railroad business, — here made artificially simple for the sake of clearness, but, in its complicated forms, occurring every day. A railroad connects two places not far apart, and carries from one to the other (say) 100,000 tons of freight a month at 25 cents a ton. Of the $25,000 thus earned, $10,000 is paid out for the actual expenses of running the trains and loading or unloading the cars; $5,000 for repairs and general expenses; the remaining $10,000 pays the interest on the cost of construction. Only the first of these items varies in proportion to the amount of business done; the interest is a fixed charge, and the repairs have to be made with almost equal rapidity, whether the material wears out, rusts out, or washes out. Now suppose a parallel road is built, and, in order to secure some of this business, offers to take it at 20 cents a ton. The old road must meet the reduction in order not to lose its business, even though the new figure does not leave it a fair profit on its investment; better a moderate profit than none at all. The new road reduces to 15 cents; so does the old road. A 15-cent rate will not pay interest,

duce at a loss than not to produce at all, and that is when the expenses go on whether production takes place or not. In such a case any income diminishes the total loss. As against the action of competition this rule holds "wherever there are large permanent investments of capital." Professor Hadley sees "a marked difference of principle between mercantile competition, such as Ricardo had in mind, and the competition of railroads or factories. In the former case its action is prompt and healthful, and does not go to extremes." Even this showing, when tried by the facts, is too favorable to competition, as may be seen from a closer analysis of the illustration with which the writer in question fortifies his position: "If Grocer A sells goods below cost, Grocer B need not follow him, but simply stop selling for the time. For: 1. This involves no great present loss to B. When his receipts stop, most of his expenses stop also. 2. It does involve a present loss to A. If he is selling below cost, he loses more money the more business he does. 3. It cannot continue indefinitely. If A returns to paying prices, B can again compete. If A continues to do business at a loss he will become bankrupt, and B will find the field clear again."[1] The actual process is by no means so simple. Rent is an expense that continues, and, unless B closes his store entirely, clerk hire is a similar item. The store is like the factory, for to the myriad of small dealers who never get more than a living out of their business any cessation brings embarrassment, while to the larger ones, whose continuous expenses are correspondingly high, the loss would be heavy. It may be thought that the loss would be still greater if goods were at the same time being sold below cost, but this involves the principle, overlooked in Professor Hadley's illustration, that not only present but future business is alienated by those who do not compete. The dealer who sells cheapest attracts customers, and the one who

unless there are new business conditions developed by it; but it will pay for repairs, which otherwise would be a dead loss. The new road makes a still further reduction to 11 cents. This will do little toward paying repairs, but that little is better than nothing. If you take at 11 cents freight that cost you 25 cents to handle, you lose 14 cents on every ton you do not carry. If you refuse to take it at that rate, you lose 15 cents on every ton you do not carry. For your charges for interest and repairs run on, while the other road gets the business." *Railroad Transportation*, pp. 70, 71. "Factories are often built in times of high prices and afterwards profits fall. Then the factories will struggle to continue to operate, even at a steady loss, since to close means something worse, namely, total loss of business and ruin." The same, pp. 72, 73.

[1] The same, p. 73.

waits for his competitor to stop selling below cost will lose his customers, together with his business reputation. He must accept shrinkage of business or follow his neighbor's low prices, and the only end of this warfare is ruin to one or the other, or a mutual understanding. This is precisely the outcome of factory or railroad strife. The difference between the two is, that the railroad or factory can continue the struggle longer than the storekeeper without absolute bankruptcy. The railroad may make only enough to pay its operating expenses and to keep it in repair, and have nothing to pay interest on the cost of construction, and yet its capital will remain intact. The trader, however, must pay for his goods, and if he sells them below cost his capital begins to melt away. But, in spite of this, if he has a reckless competitor he is just as much bound to keep up the fight as the rival of a bankrupt railroad, for the loss of his business also means loss of capital, since it takes labor and money to move and to establish a business, and because one who is compelled to sell out his stock for want of trade must usually sacrifice it.

To make the case complete, let us examine another phase of it. In trades where a variety of articles are sold, it is seldom that destructive competition is waged over many things at a time. The grocery business is a fair example. It will be said that Grocer B can simply cease to sell such articles as Grocer A is selling below cost, thereby throwing the entire loss upon A. But this would impair B's trade in other articles, for people usually do all their buying at the store that sells some things cheapest. Grocer B would, therefore, lose his customers, while A, though selling certain things at a loss, would be more than remunerated by the increased sale of others. If A at length returns to paying prices on the competitive articles, B can again compete, but he must find a way to win back those who have been attracted to A. He will probably be forced to offer some things below cost, which he might better have done with the previous articles, thereby saving his customers and their trade on profit-bearing articles; and he will now have more to overcome than before, having established the reputation of being "dear."

When discussing the destructive competition between railroads, Professor Hadley calls particular notice to the fact "that when a competing road does not carry the war to this point, it is not a competitive rate."[1] If they agree upon some reasonable rate, "such a rate is actually determined by combination." Store-

[1] *Railroad Transportation*, p. 71.

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keepers, as well as railroads and factory owners, have learned how fatal it is to their interests to allow unrestricted competition to determine prices, and they, too, have made use of the principle of combination. Merchants in the same line of business form associations and hold meetings to promote the interests of the trade, and an important function of these conferences is to determine rates to which all pledge themselves to adhere for self-protection. Not that this association is universal, or always successful to prevent cutting prices, but it is widely prevalent, and it is a necessary tendency resulting from the self-destructiveness of the principle of competition.

When, therefore, we turn to railroad history for light on trusts, it is because the railroad is not anomalous in outgrowing and defying the principle of competition, but is typical of all business, and brings into strong relief the necessary subordination of competition to combination wherever there is industrial life and growth. The parallelism is most marked of those industries where the trust is appearing, but further development will disclose wider similarity and raise additional problems. It is better to realize and acknowledge the truth early, that competition can no longer be relied upon, and that new principles for the regulation of industry must be substituted for its random and uncertain operations.

English legislation blundered and failed until it accepted the principle of combination and substituted regulation for futile efforts at suppression. The Parliamentary committee of 1872 determined that "the railroad system was to be left to develop itself in its own way, as a recognized monopoly, held to a strict public accountability as such."[1] A few great companies now possess the entire railroad system of England and are recognized as monopolies. The same process of consolidation has been going on in this country, but we still have faith in competition, as the provision against pools in the Interstate Commerce Act shows. But the Interstate Commerce Commission has been going in the right direction. One of its most significant acts was its assumption, in several instances, of the power to regulate rates. Either pools and consolidation can be prevented or they cannot. If pools are prohibited the struggle will be between shippers and the railroads and among the railroads themselves. In the struggle between competing railroads to get the patronage of shippers, it has been shown by experience that the former are at the mercy of the lat-

[1] Adams: *Railroads: their Origin and Problems*, p. 91.

ter, and can be plunged into a war of rates in which the shippers pay much less than fair transportation rates. But why should this be allowed? It is in principle the same as when the railroads unite to plunder the shippers; the case is merely reversed, for the shippers combine and plunder the railroads. The dilemma is obvious. The government may sanction pools in order that the railroads may protect themselves against shippers, and then it must supervise rates to protect the shippers from the railroads; or it may prohibit pools, for the protection of shippers, and then it must determine what rates the shippers shall pay in order to protect the railroads against the shippers. In either case the government must regulate rates. In the long run, amalgamation can no more be resisted in this country than it was in England, and the only recourse of the people will be state control of rates.

The railroad combination is simply the advance body of an army of combinations. Trust industries do not differ from railroads save that a longer period is necessary to bring them to the point where union or consolidation is possible; but when this is an accomplished fact the public is at their mercy precisely as it is at the mercy of the railroad monopoly. It can only protect itself in the same way: by regulating the rates which the trusts may charge for their products.

Some seemingly important differences may, however, be pointed out, and these must be considered. As a remedy for railway monopoly Mr. James F. Hudson has advocated legislative restoration of "the character of public highways to the railways, by securing to all persons the right to run trains over their tracks under proper regulations, and by defining the distinction between the proprietorship and maintenance of the railway and the business of common carriers."[1] In other words, the tracks shall be free to all who wish to compete as carriers upon them. If this is a cure for railroad monopoly it is plain that the trust monopoly, which cannot open its shops or mines to be worked at the same time by different competing companies, must be dealt with in another way. But it only circumscribes the disease. Government would regulate the road-bed, which would be well, but the same evils of competition and the same necessary tendency to combination among the carriers would appear. Experience is also against this plan. For a long time the English theory of the railroad supposed that the owner of the road-bed and the carrier would be different persons, and in the earlier charters provision was made

[1] *The Railways and the Republic*, p. 372.

for this separation.[1] But the theory never worked practically, and there was monopoly of the road-bed from the first. The separation could only be accomplished and maintained with the greatest difficulty, and too large a part of the problem would still remain unsolved to justify the undertaking.

It is likely to be assumed that the trust is never safe from new competitors, and to think that on this account it can never become as complete and formidable a monopoly as the railroad. In support of this belief the new foe of the Standard combination may be cited, or the antagonism of Claus Spreckles to the Sugar Trust. The facts, however, do not sustain this view. In a letter from Mr. Wallace P. Willett to "Bradstreet's,"[2] it is shown that after the trust took full control of the markets in January of the present year the difference between standard raw sugar (centrifugal) and standard refined (granulated) changed from $\frac{5}{8}$ c. per pound to $1\frac{3}{16}$ c. per pound in January and $1\frac{1}{4}$ c. per pound in February. Mr. Willett concludes that the trust must be "considered a permanent calamity unless a legislature, a congress, a tariff bill, or several Claus Spreckles step in to remove it. One Claus Spreckles, with one refinery, cannot do it. . . . As to building a refinery to fight the 'trust,' it is absurd. One refinery would have no more cause or opportunity for fighting the 'trust' than have the three non-trust refineries now running. The trust controls seventy-eight per cent. of the consumption of the United States, and one new refinery would reduce this control only seven to twelve per cent., as to size."

Tariff reduction is the panacea for trusts upon which many persons hopefully rely. The New York "Herald" has argued this view of the case in the following manner: "If there were no high protective duties trusts would be impossible, because the moment manufacturers here combined to limit production and raise prices, that moment goods would rush in from abroad to supply the market. It is the high tariff, therefore, which is the basis of trusts. The tariff shuts out foreign goods; thereupon manufacturing capitalists combine to limit production and raise prices at home; and in doing this they necessarily injure their own workmen, because they deprive them of full work, and injure the people at large by forcing them to pay artificially high prices for goods."[3] It is interesting to recall that this remedy was the reliance of the Parliamentary committee on railroads, of which Sir Robert Peel was a member, which assumed that no further regulation than free trade

[1] Adams, pp. 83, 84. [2] March 10, 1888. [3] April 4, 1888.

would be needed. Injurious as high protective duties are, it is not clear that their removal would render trusts impossible, for already we are acquainted with international trusts, and as every day is making their formation easier the reduction of the tariff would be but a temporary check upon them. Besides, tariff reform would not prevent trusts in those articles which cannot be imported at all, or only at great expense, or in which we have superiority in production.

The trust monopoly, like the railroad monopoly, has the elements of stability and permanence, and belongs as much as the latter to the "nature of things." The first act that government must perform in regulating the trust is to dissipate the secrecy in which its operations have been veiled. The objection to publicity which may be defended under perfectly free competition does not hold of trusts, for with free competition the public is at least measurably protected, while under monopoly protection wholly vanishes. Competition tends to force down prices, whereas the trust raises them. The right of secrecy is maintained under competition on the ground that without it competitors would slaughter one another, but the trust in doing away with competition not only does away with the occasion for secrecy, but makes openness a strict necessity. This exchange of concealment for publicity which the trust necessitates is, in fact, one of the advantages of evolution in business from competition to combination. In disputes between employer and employed it is now impossible to say with accuracy whether the former can pay higher wages and survive, and this gives rise to a confusion of ideas that is very helpful to all other employers. Where there are many employers some may claim that they are compelled to pay low wages by the action of competitors. This is often true and often untrue, but it is impossible for one not in the secrets of a firm to know the facts. Now it is just those who could afford to pay more but do not want to do so who derive especial advantage from this uncertainty, for if employers who are actually unable to raise wages can convince their workmen and the public of their inability, the general impression is that all engaged in the business are in the same condition. In this manner responsibility is evaded by those who should bear it, the public mind is kept hazy, and popular sympathy prevented from forming or focusing; for all the while other manufacturers may be having a great profit, and, by the practices to which they resort with their own employees, and by cutting prices, may be the cause of low wages all along the line. When

all industry of a given kind is under one head, this confusion would disappear, and there would be a basis for intelligent consideration of the claims of the wage class. The problem would be essentially simplified. It would be: What is this single responsible manager doing? not, What are a variety of disconnected managers, producing under dissimilar conditions and having different degrees of success, doing? Secrecy, the multiplicity of employers, and the exaggerated complexity of business due to their competition, have been among the chief difficulties of satisfactory adjustment between employer and employed. The trust brings unity out of this chaos, and since the whole industry becomes a single business, wages will be determinable by what the whole industry can afford to pay without the complication that some can pay more and others less. Under these circumstances arbitration is possible.

This indicates another function of government in its control of trusts. The knowledge that is possessed by government of the industry of the country is meagre and unsatisfying in many respects. It cannot be supposed that a wise public policy is possible under these circumstances. A complete picture of all the conditions of the industrial world, and of all that is taking place there, is needed before the simplest problems can be dealt with or the soundest principles intelligently applied. Although industry has become enormously involved, there is no corresponding science that reflects it, or has mastered its details and principles, and since government must at length act, or at least decide whether to act or not, it should arm itself with a full knowledge of the situation. A National Bureau of Labor, Industry, and Commerce is needed to supply this information.

It is evident that the trust renders a great service by preparing the way for government supervision of industry, and by doing naturally much that government would otherwise be compelled to do. The directors of the trust "have the power to cause one concern to be closed, limit the production of another, consolidate the different establishments, or centralize production at one point. The various parties are not injured, since their part of the profits comes from the whole 'trust,' and not from their particular establishment." [1] For the direction of all the productive agencies which it so carefully controls the trust must possess full information of all that relates to these agencies, and this information the government can utilize, without the labor of collecting it. In the

[1] William W. Cook: *Trusts*, p. 5.

case of railroads, it has been found that it is easier to regulate large and prosperous companies than those of doubtful solvency, and where capital is concentrated, and has a legally recognized footing, a new sense of responsibility is engendered in its managers, and they become more cautious and conservative. Trusts, when they obtain an acknowledged standing in organized industry, will, doubtless, exhibit the same phenomena.

Following still the analogy of railroads, the creation of a Trust Commission seems to be the next decisive action required of the government. So far as commissions have been tried, either in England or America, they have succeeded, although the failure of our Railroad Commission was anticipated. One of the apparently most cogent objections to it, and one that is always used against any extension of the province of government, was the probability of incompetent and corruptible commissioners. It must be acknowledged that nearly everything turns upon this point. Mr. Hudson put the objection forcibly. "No matter," he said, "how stringent or specific the law may be, in prohibiting extortionate rates, discrimination, or pooling, its effectiveness, if its enforcement is put into the hands of a commission, will depend entirely upon the vigor and faithfulness of that body. What guarantee have we, in the provisions of the bill, or in the influences that would control the selection of commissioners, that they would display these qualities? It must be remembered that this legislation seeks to restrain the greatest power in the country, except the united and aroused popular will."[1] In England, however, the members of the commission have proved both competent and unpurchasable, and the ability and integrity displayed by our Interstate Commerce Commission are fresh in all minds. We may gather some important hints from the following estimate of the latter: "Its work has been a surprise both to its advocates and its opponents. . . . Never, perhaps, has an important body of new law been so rapidly created and so generally obeyed. The authority of the Interstate Commerce Commission was as indefinite as that of the English Commission established in 1873, and its departure from accepted legal traditions has been much wider. Yet the American Commission has done more work, in making and settling questions of law, in seven months, than was accomplished by the English Commission in twice that number of years."[2] Our Commission has, of course, failed to satisfy those

[1] *The Railways and the Republic*, p. 339.

[2] Professor Arthur T. Hadley: *Quarterly Journal of Economics*, January, 1888.

who hold extreme views, and who would like to see the railroads conducted in the interests of the entire people. It must be remembered by these, however, that many of the principles on which they base their claims are quite new to general discussion, and that they can only make their way into public policy through an elaborate process of public education. It should be noted in the last citation that the authority vested in the commission was "indefinite," which means that the difficulties have been met by the commission itself rather than by the provisions of the enactment creating the commission.

The soil in which the Trust Commission would work will likewise be new, and the commission would be thrown largely upon its own resources to learn the conditions of the problem before it, and to develop a new body of law suitable thereto, as the Interstate Commission did. As we have pointed out, our present knowledge of facts and our study of the subject up to this time are insufficient for more than general legislation. But we are not altogether in the dark. Where trusts do not already exist, their formation should be made to depend, as far as possible, upon their ability to economize in production instead of upon their arbitrary power as monopolists. Without the support of railroads the Standard Trust could hardly have ruined many of its competitors,[1] but there is probably no doubt that it could, in time, have brought the same competitors to terms had it been compelled to rely upon its power to cheapen production by the aggregation of capital. It would be the duty of the commission to see that a producer who was fairly undersold should not be ruined and his plant sacrificed, but that he should be allowed to become a member of the trust on equitable conditions. Having access to the books of the trust, the commission would always be able to determine whether the trust was selling low through legitimate cheapening of the process of production or on other grounds. Where it is selling low to kill its competitors the government should place a check upon its operations. If the

[1] "It was during these [railroad] wars that the Standard Oil Company acquired its first strength and prestige, and that the rebating system grew up, which was afterwards exposed by the Hepburn investigation. The Standard Oil Company, for a long time, received rebates from the railroads, averaging over a half million per month, and in every trade and industry which used the railroads largely rates were honeycombed everywhere with rebates to those smart enough to get them." E. Porter Alexander: *Railway Practice*, p. 25. These artificial aids to the formation of trusts no longer exist, thanks to the Interstate Commerce Commission.

trust sells without profit, or at loss, its intention is to remunerate itself by excessive prices when the whole field is its own. Competitors have a right to protection against this form of elimination, and the community should be protected from excessive after-prices. The commission must, therefore, be empowered to define the range of competition by determining the percentage in advance of cost of production, below which the trust should not be permitted to dispose of its products. It is customary to test anything that happens in the industrial world mainly by its effect on the cost of articles to the consumer, and to excuse whatever cheapens prices, regardless of further consequences. Railroad wars cheapen prices, but, Professor Sumner to the contrary, they are an injury to the community. The German government has realized this, and, to avoid them, has legalized pools, and even made them obligatory. We have seen that, because these wars were possible, the Standard Trust could dictate rebates to the railroads and build itself up by destroying one competitor after another. Under healthy growth of industry, legitimate producers would not be driven to the wall and crushed, but would remain a part of the business in its new form, reaping some of the rewards that they had helped to prepare. Although capital would continue to concentrate, the present tendency for a lessening number to enjoy its fruits would be partially counteracted.

But assuming the trust to be formed, whether, as with some of those already existing, by fraudulent means, or by mutual agreement of all concerned, or by cheapening processes of production, the community could only preserve itself from extortionate prices by some limitation of profits, to be determined by the commission. Interference to prevent excessive reduction of prices for the extinction of rivals would probably be unnecessary if the possibility of subsequent enormous gains were removed.

Objections will of course be raised to this plan. Some will deny to government the right to interfere to this extent with their private affairs; others will say that attempts of the same character have been made before and have invariably failed, and that the undertaking is too involved and enormous to offer any promise of success. Would not any rate of profits that might be authorized as legitimate be purely arbitrary, and would not the task of holding the trust industries of the country to this limitation be simply impossible? In reply to the first objection, one must bear in mind that under the complete trust, competition is dead, and that principles more or less acceptable while competition lasts have

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no validity without it. The claim that this question of profits under monopoly is a private question, and to be decided always by the persons immediately concerned, is of course wholly without foundation. Up to a certain point profits are legitimate, but when it is left to the handful of producers constituting the trust to decide by vote the amount of their own business profits, it is simply conferring upon them the power to put their hands in the pockets of the people and take out what they choose. To this proceeding the people are certainly not indifferent. Either the handful who are supremely interested in getting all they can must be allowed to have their own way and take from the people as much as they want, or the people, constituting the extensive majority, and who do not exist in order to support the manufacturing, but for whom the manufacturing is done, must assist in determining the remuneration to which those who perform this service are entitled. The objection of the few to government intervention is its arbitrariness: they are opposed to any arbitrary determination of the amount of their profits. But it is not really arbitrariness to which they take exceptions, but merely having any one exercise it but themselves. For nothing could be more arbitrary than their own absolute determination of their own profits. It has been stated by the newspapers that the profits of the Standard Trust during fifteen years were $300,000,000. This is what happens when the minority, consisting of a few individuals, are allowed to fix their own profits.

It is said that government limitation of railroad rates has been tried and has failed. Mr. Hudson declares that "it is a hopeless task to adjust the schedules to suit all circumstances, and it is futile to expect an adequate reform of railway abuses by such means. The uselessness of attempts to establish equitable rates by law appears in the fact that every such schedule which has been in existence for ten years is now obsolete, being far above the rates now fixed by the railways."[1] In the light of what has already been said in this paper, the only reply that is needed to this objection is that the past cannot be taken as a criterion of the future on this question. But, to appeal to experience, the mere fact of the existence of a commission with certain powers in England has rendered the exercise of these powers almost wholly unnecessary.[2]

Combination forces the question, what a reasonable remunera-

[1] *The Railways and the Republic*, pp. 329, 330.

[2] Adams: *Railroads: their Origin and Problems*, p. 93.

tion for the service of production is. One of the elements upon which political economists have continually dwelt as entitling successful producers to high rewards is that of chance. All or some portion of what it cost those who failed, those who succeed are supposed to deserve in payment for the risks they assumed. But where business is elaborately organized and through combination has the field to itself, the uncertainties arising from competition are removed, and the occasion that might have formerly existed for speculative rewards ceases. A business that is reared and sustained amid the fierce eddies of competition is usually a monument of skill and unsleeping watchfulness and application; and one who dedicates himself to this exhausting life is certainly worthy of rewards to which those who are free from responsibility can advance no claim. But in the new phase of industrial development that is now preparing the case is different, for the chief causes of strain and anxiety disappear. It is no longer necessary to be devising day and night against rivals who are likewise sleepless to discover new modes of getting uppermost. This growing certainty greatly simplifies the problem of the limitation of profits. No one can longer dodge the fact that chance, and so-called "natural law," and individual rapacity have one and all failed of an equitable apportionment of the rewards of industry, and it will have to be acknowledged that science, patiently gathering all the facts and hearing the full details of every claimant, and judging always from the point of view of the whole, is the only arbiter of this question deserving confidence.

The disadvantages not solely to the warring producers but to business itself from the competitive method are oppressive. One of the principal causes of disaster in industry is the failure of individual producers to correctly calculate the market and to adjust their production to it. But if they could estimate the demand for an article, they cannot tell how much others in the same field of production will put forth. And this is a fruitful cause of financial crises. It is the material on which fear and suspicion feed. "We know how some slight cause, acting on the fears and imaginations of men, will overthrow the commercial structure of a nation in a few weeks, or even days, prostrating the proudest houses, and spreading ruin far around."[1] Production is now highly organized, but it is not firm and safe. Stability must be achieved, and it can be done by uniting those who are most intricately related to, and dependent upon one another, and the action of any

[1] Francis A. Walker: *Money, Trade, and Industry*, p. 129.

one of whom may involve all in loss or ruin. Stability is to be won through harmonious action, and the indications are that the trust is the shortest and surest way to harmonious action.

This line of development seems to many to be fatal to the impulse to improve in all the ways now due to the desire of the individual to distance his fellows, and to be unfavorable to the growth of individuality. A passage from Professor Sumner, who is the champion of individualism, contains a sufficient reply to this objection. He says of the effects of our industrial system: "The conditions of competition in such a system are no doubt onerous to the last degree. The conditions of success are numerous and complicated. The nerve strain of comprehending and justly estimating the factors, and of following their constant variations, is too great for any one to endure. Foresight must be used, yet there are so many unknown quantities that foresight is impossible. If the attempt is made to master all the unknown quantities, then the task is so enormous that it cannot be accomplished. Furthermore, the relations with other persons in the industrial system are necessarily close. It is impossible to escape such relations, and it is impossible to avoid a share in the consequences of the mistakes and incompetency of the others."[1] There is no uncertainty as to the consequences of the great strain the industrial leaders are under to attain the impossible. On this point medical men speak with one voice. It will be sufficient to hear from one who is eminent among them. Dr. S. Weir Mitchell says: "All classes of men who use the brain severely, and who have also — and this is important — seasons of excessive anxiety or of grave responsibility, are subject to the same form of disease [nervous exhaustion]; and this is why, I presume, that I, as well as others who are accustomed to encounter nervous disorders, have met with numerous instances of nervous exhaustion among merchants and manufacturers." "Men have confessed to me that for twenty years they had worked every day, often traveled at night or on Sunday to save time; and that in all this period they had not taken one day for play. These are extreme instances, but they are also in a measure representative of a frightfully general social evil."[2]

All our stimulus to individual initiative does not secure the maximum of production, and the action of unregulated trusts is the willful curtailment of the product. But whatever the obstacles

[1] New York *Independent*, April 19, 1888.

[2] *Wear and Tear*, pp. 46, 48.

may be, society will press on to the full utilization of its powers of production, and the obvious benefits of copious production will call forth energy and originality. If this increase of production brings more necessaries and comforts into the lives of the poorer classes, as it undoubtedly will, the effect upon character will be immediately felt, and the level of personality will rise. This improvement would react upon production, to again increase it. The fear that personality or production will suffer through combination is groundless, provided the benefits of combination accrue to the whole community rather than to the few. Whatever may be thought of this, however, the point of impossibility has been reached. Things cannot go on as they are, and the question is not, Shall we do what we have been doing, or is something else preferable? We must do something else, and the question is, What is best of the courses open? I have undertaken to show that the acceptance and thoroughgoing regulation of combination is best.

Morrison I. Swift.

ASHTABULA, OHIO.

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